

Credit Unions at an Inflection Point

by Chip Filson

Callahan & Associates

CU*Answers

December 6, 2006

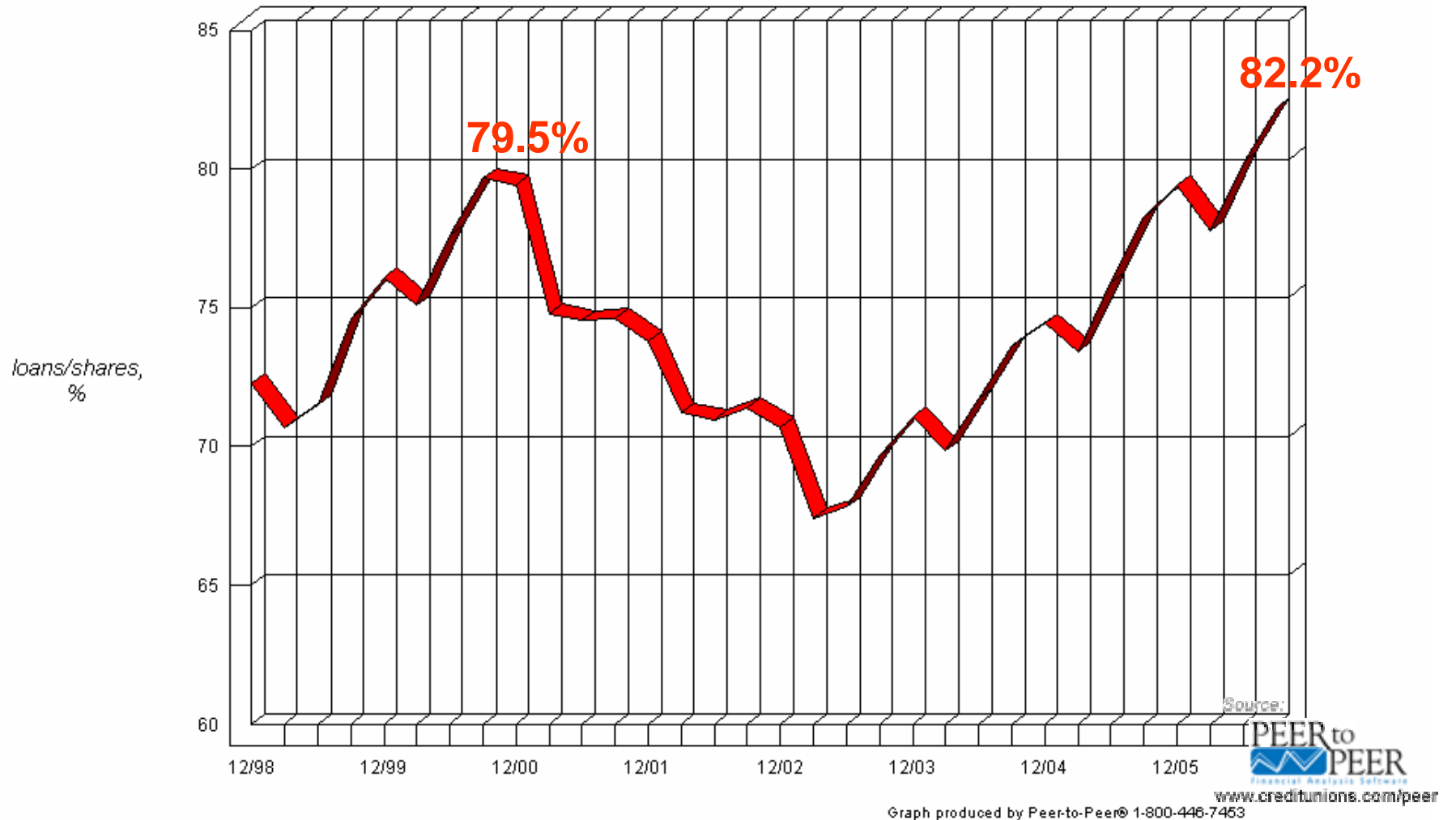
Grand Rapids, MI

Agenda

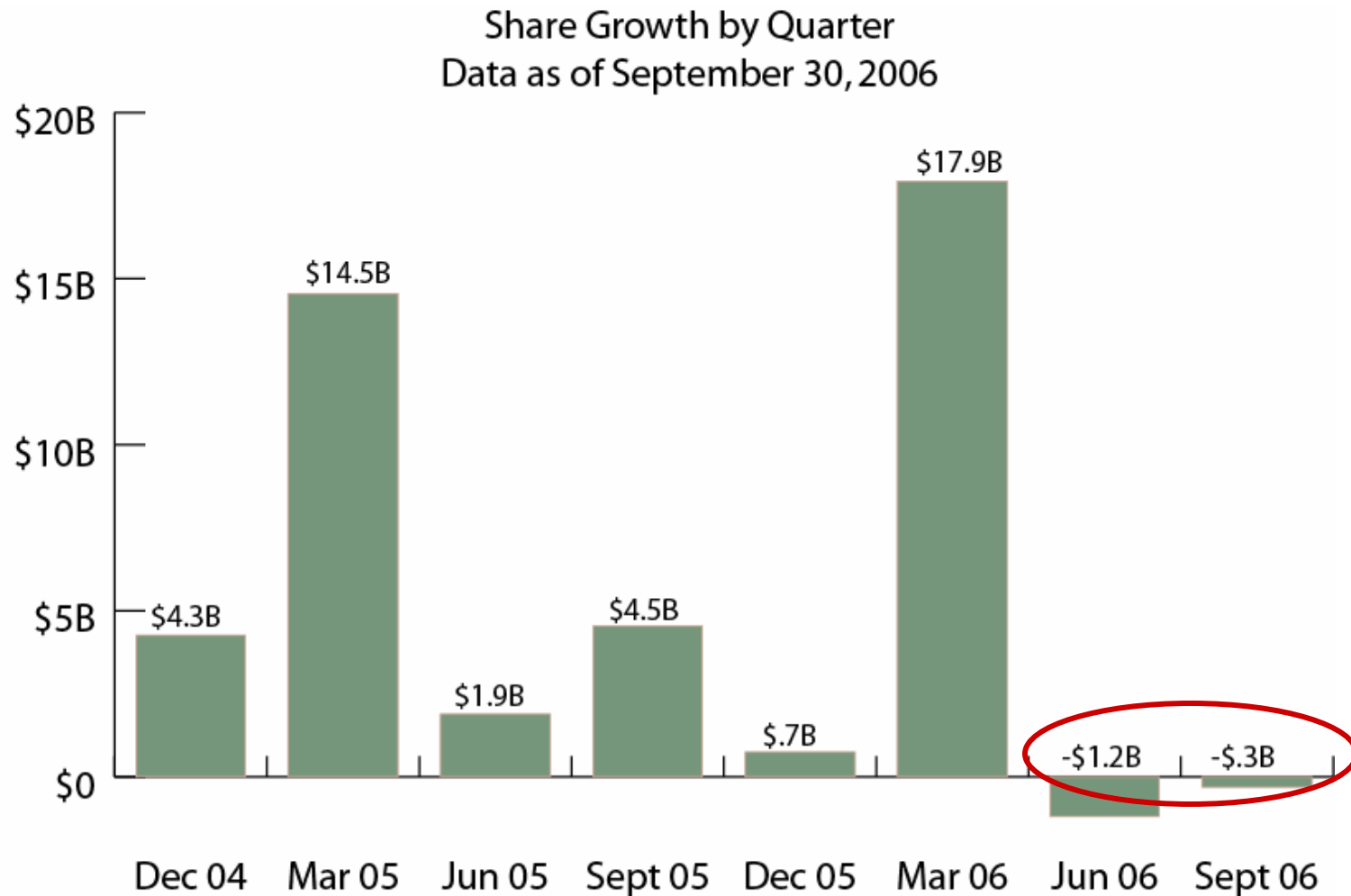
- The current environment
- Still a need for credit unions?
- How do we shape our future?

The loan to share ratio continues to rise

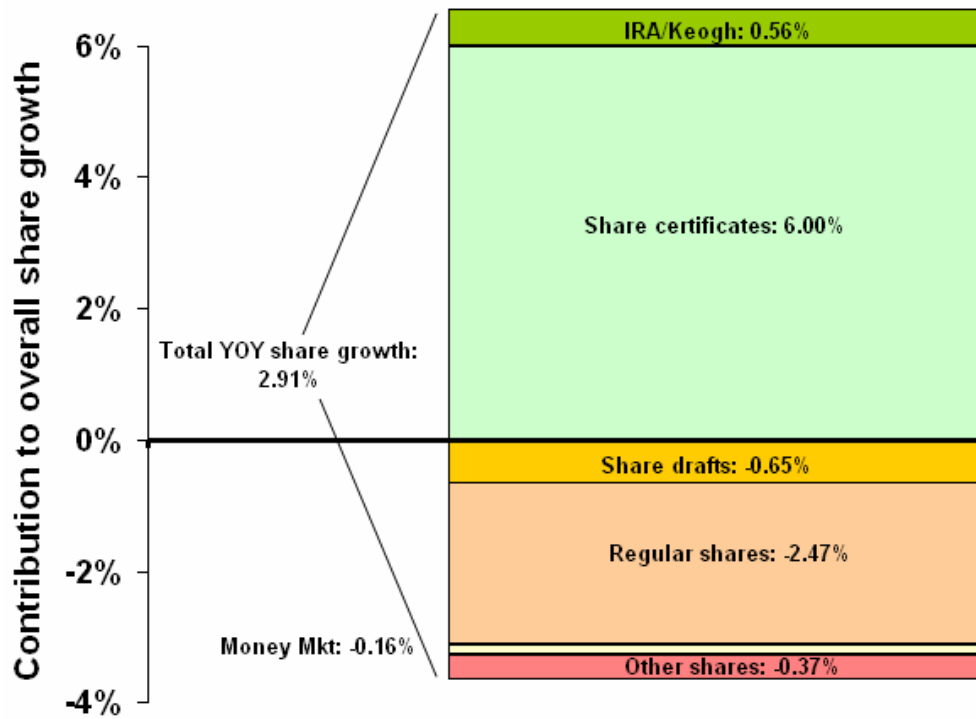
(September 30, 2006)



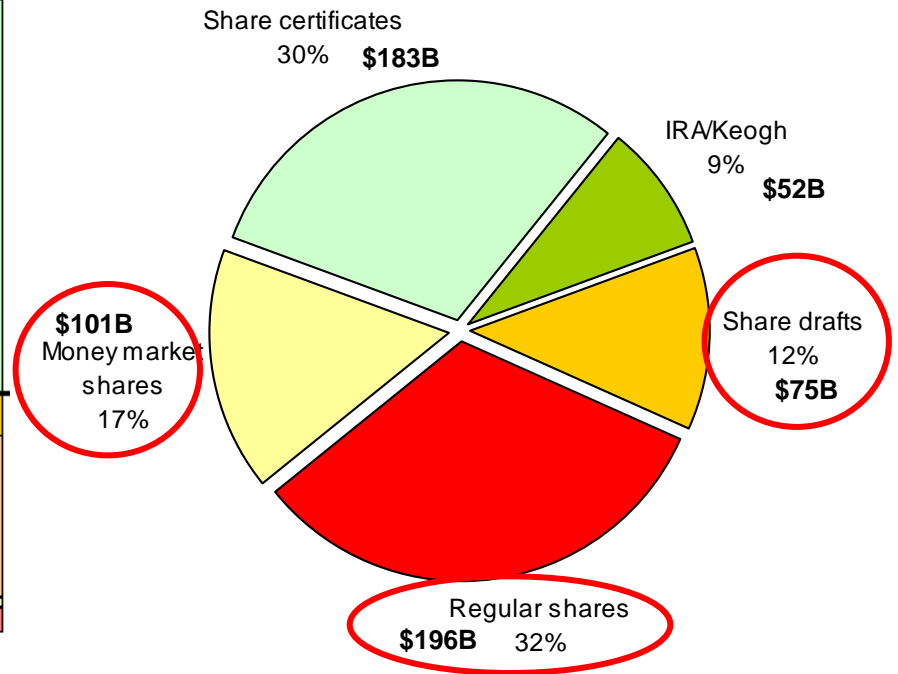
Share growth is currently stalled



Core deposits comprise two-thirds of total shares



Contribution to share growth



Composition of shares

At 09-30-06, credit unions held a 5.7% share of financial institution total assets

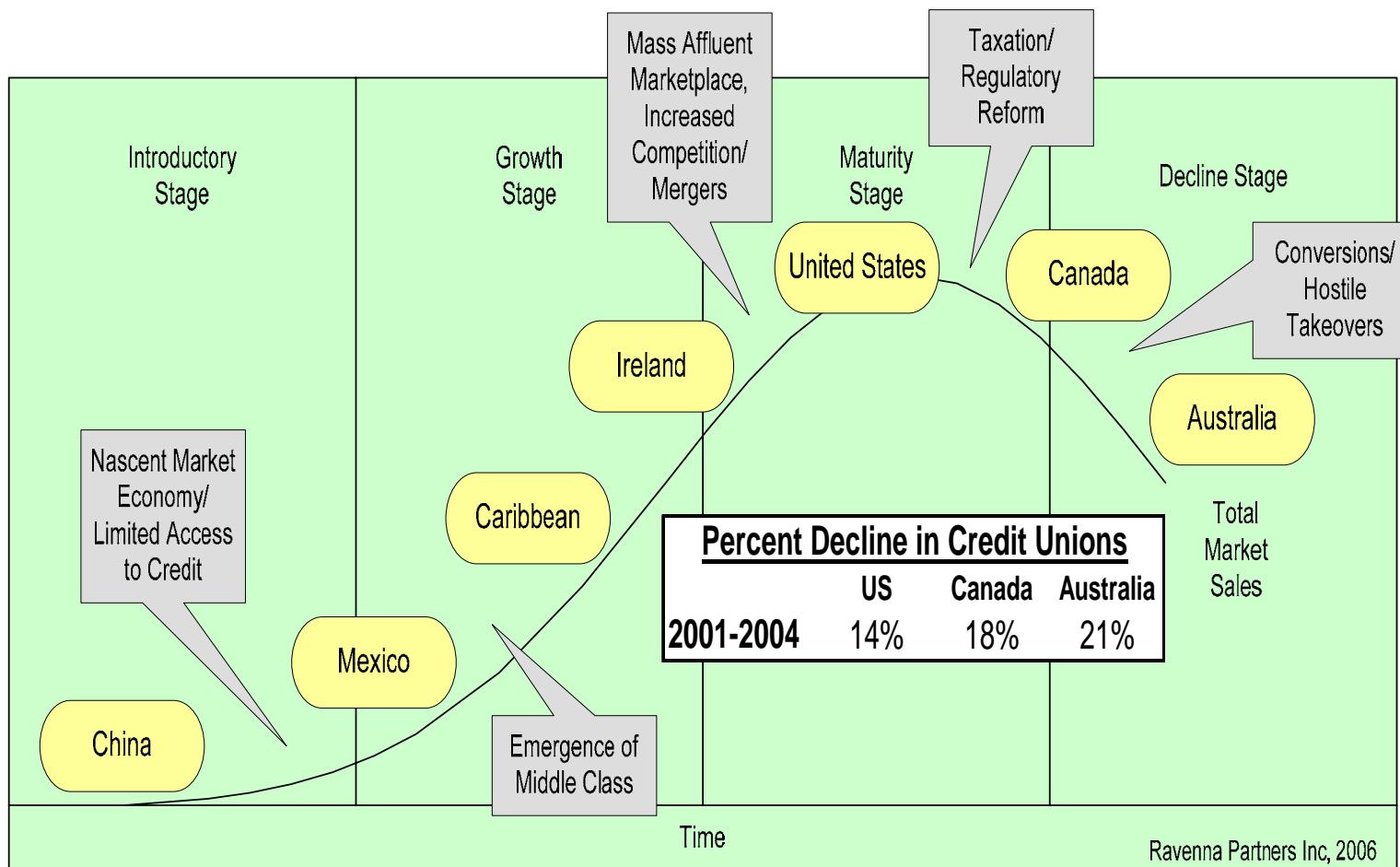
Institution Type	Number	Assets (B)	12M Loan Growth	12M Deposit Growth	Loans to Shares/ Deposits	Net Interest Margin	Return on Assets
Credit unions	8,638	\$716.9	8.1%	2.9%	82.2%	3.20%	0.88%
Banks	7,450	\$9,765	8.9%	6.2%	107.7%	3.48%	1.34%
Thrifts	1,293	\$1,992	9.4%	9.5%	124.5%	2.90%	1.06%
Total	17,381	\$12,477	8.9%	6.4%	NA	NA	NA

Source for bank and thrift data: FDIC - Statistics on Depository Institutions Report

Major Issues

- Member share and growth stall
- Consolidation – mergers as a solution?
- Conversions – charter “relief”
- Nationwide – new market pressures?

What is the future of the U.S. CU System?



Source: "Credit Union System Challenges and Opportunities"

Jeff Post, CEO, CUNA Mutual Group

August 2006

This Raises the Question . . .



“If credit unions did not exist today, would we create them?”

What needs would they serve?”

GAO Report: Credit Cards

GAO

United States Government Accountability Office

Report to the Ranking Minority Member,
Permanent Subcommittee on
Investigations, Committee on Homeland
Security and Governmental Affairs, U.S.
Senate

September 2006

CREDIT CARDS

Increased Complexity
in Rates and Fees
Heightens Need for
More Effective
Disclosures to
Consumers



GAO-06-929

THE NEW YORK TIMES, SATURDAY, OCTOBER 28, 2006

Personal Business

The New York Times

SHORTCUTS

In Credit Card Rates, Trust but Verify



“One thing I take pride in – actually I cling to desperately as proof that I can manage our finances – is that we pay our credit card bill in full every month.


That’s why I was shocked last month to discover that I had put the bill away in its little “to pay later” place, and then forgot it.

I was even more shocked when I saw the \$39 late fee and the \$70.88 finance charge on our October bill.

Citibank agreed to waive the late fee, but I was on the hook for the finance charge.”

Do we need a “Borrower’s Security Act” that would restore the balance of power in the lending relationship?

“Dense language obscures usurious interest rates, punitive late fees”

<p>Editor: Ken Paulson Exec. Editors: John Hillkirk, Kinsey Wilson Editor, Editorial Page: Brian Gallagher Managing Editors: News, Carol Stevens; Money, Jim Henderson; Sports, Monte Lorell; Life, Susan Weiss; Graphics & Photography, Richard Curtis</p>		<p>Senior Vice Presidents: Circulation, Larry Lindquist; Advertising/Electronic, Jeff Webber Vice Presidents: Finance, Myron Maslowsky; Human Resources, Janet Richardson; Information Technology, John Palmisano; Production, Ken Kirkhart</p>
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Today's debate: Credit card disclosures

Banks use gobbledygook to mask sleazy practices

Our view:
Dense language obscures usurious interest rates, punitive late fees.

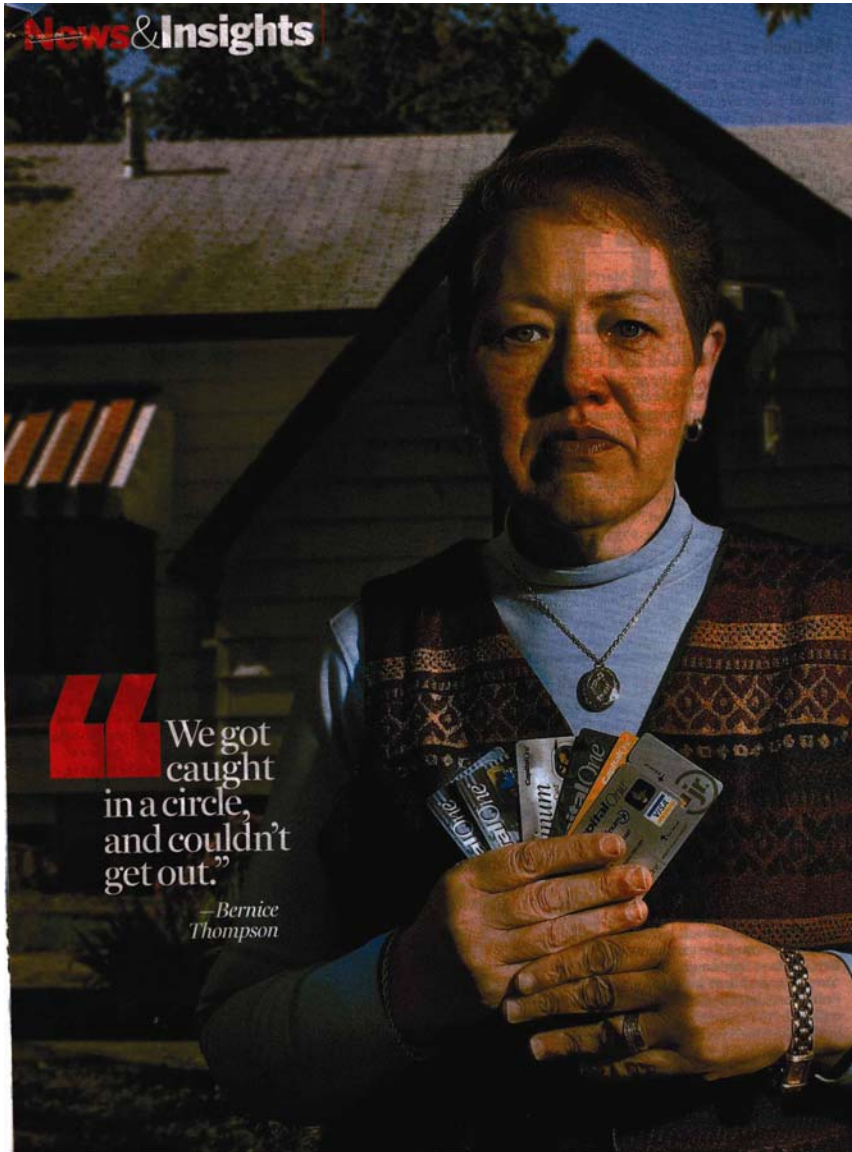
serts in their bills and “opt out” by writing a letter to the bank. Issuers told the GAO that most customers don't reject these rates. Little wonder when it's so difficult.

► **Soaring fees.** From 1995 to 2005, late fees rose

Remember the last time

USA Today

October 31, 2006



CONSUMER DEBT

CAP ONE'S CREDIT TRAP

By offering multiple cards, the lender helps land some subprime borrowers in a deep hole and boosts its earnings with fee income. **BY ROBERT BERNER**

BusinessWeek

November 6, 2006

Richard D. Fairbank

Chairman/CEO of Capital One Financial &
2006 Banker of the Year

“It’s great to be honored by one’s peers, but even better to be paid top dollar. Richard D. Fairbank, the founder, chairman, and chief executive of Capital One Financial is enjoying both. He will be given the 2006 Banker of the Year Award on Thursday.

*American Banker. . . says it is recognizing Mr. Fairbank for **making credit more accessible**, transforming lending practices and diversifying his bank’s balance sheet.*

*Last year, he was paid an eye-catching **\$249 million**, making him the **second-highest paid executive in America** . . . according to the Corporate Library, a firm that examines executive compensation.”*

The New York Times

November 26, 2006



“The industry's most profitable customers, the ones being sought by creative marketing tactics, are the "revolvers:" the estimated 115 million Americans who carry monthly credit card debt.

*Ed Yingling, incoming president of the American Bankers Association, tells FRONTLINE that revolvers are "the sweet spot" of the banking industry. This "sweet spot" continues to grow as the **average credit card debt among American households has more than doubled over the past decade**. Today, the average family owes roughly **\$8,000** on their credit cards. This debt has helped generate record profits for the credit card industry -- last year, more than \$30 billion before taxes.”*

“A recent Discover survey indicated that nearly 60 percent of consumers don’t understand the terms and conditions of their credit cards. Nearly 46 percent of respondents cited never redeeming their rewards. Discover Card has no expiration dates or caps for active card holders, which is sought by 80 percent of respondents. . . .”



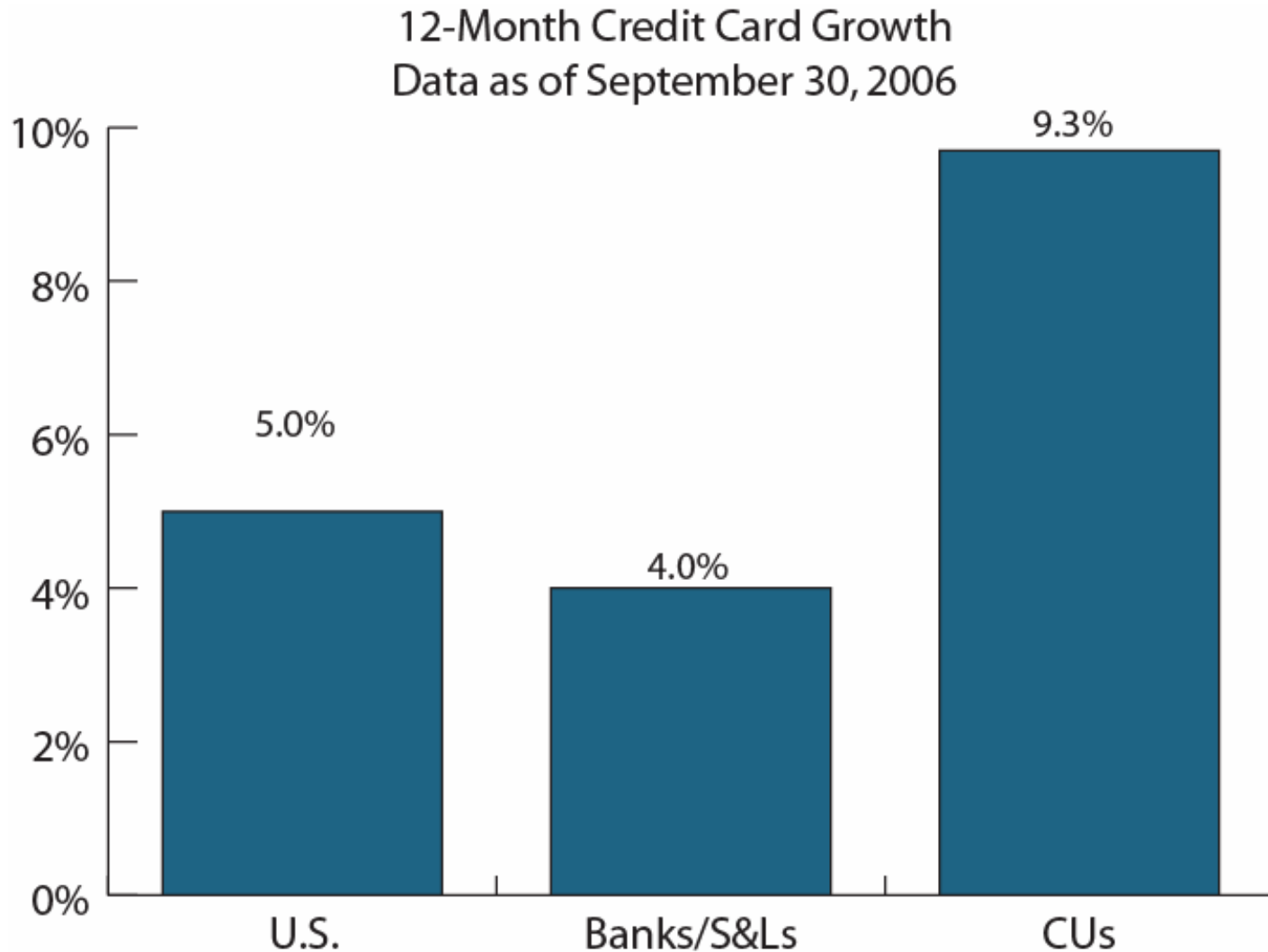
Chop Up Your Cards and Come to Discover



USBanker

November 2006

Credit union card balances outgrew banks. Why?





Special report Starting today



Young people struggle to deal with kiss of debt

By Mindy Fetterman and Barbara Hansen
USA TODAY

Thirty years ago, the "generation gap" reflected the cultural gulf between World War II-era parents and their children. Parents then just didn't get sex, drugs and rock 'n' roll.

Today, the gap is about debt. This generation of twentysomethings is straining under the weight of college loans and other debt, a crushing load that separates it from every previous generation.

Nearly two-thirds carry some debt, and those with debt have taken out more in the past five years, according to an analysis of the credit records of 3 million twentysomethings that Experian, the credit-reporting agency, did for USA TODAY. Their late payments are rising, and they're more likely to be late than other Americans are.

What 20somethings owe

Experian Group, a credit-reporting company, analyzed data from 3 million credit records of twentysomethings over five years. Here's how twentysomethings are doing:



© 2006 Experian Group. All rights reserved. This report is for informational purposes only. It is not intended to be used for any other purpose. See www.experian.com for more information.



High price of college, soaring housing costs stack the deck

Cover story

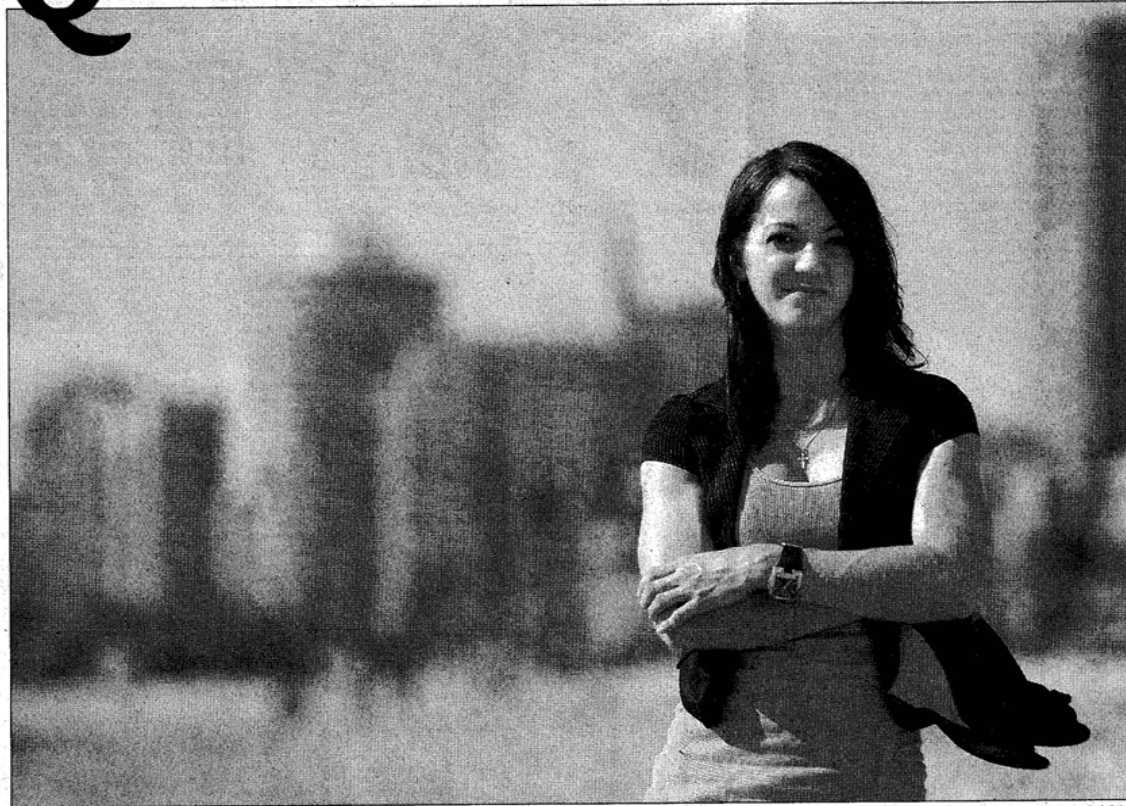
Experian, the credit-reporting agency, did for USA TODAY. Their late payments are rising, and they're more likely to be late than other Americans are.

Photo by Jeffery M. Levey for USA TODAY



Young & in Debt
Week 2 of 6

Q: How can she manage her debt payments?



By Rob Ritha

No beach bunny: Heather Schopp lives just two minutes from the ocean in Long Beach, Calif., but with two jobs, she doesn't have the time to enjoy it.

Chiropractor works 2 jobs to chip away at \$165,000 in school debt

Satisfied Customers Drive Higher Revenues and Lower Servicing Costs

Customer Satisfaction Lower When Mortgage Not Serviced by Loan Originator

“ . . . Nearly one-half (45%) of mortgages do not remain with the originator for servicing at some point after the loan is closed . . . While this is a common practice in the industry, removing the homeowner from the decision to sell the mortgage to a different company for servicing can create confusion and a sense of betrayal among customers . . . ” (continued)

J.D. Power and Associates

July 19, 2006

Satisfied Customers Drive Higher Revenues and Lower Servicing Costs

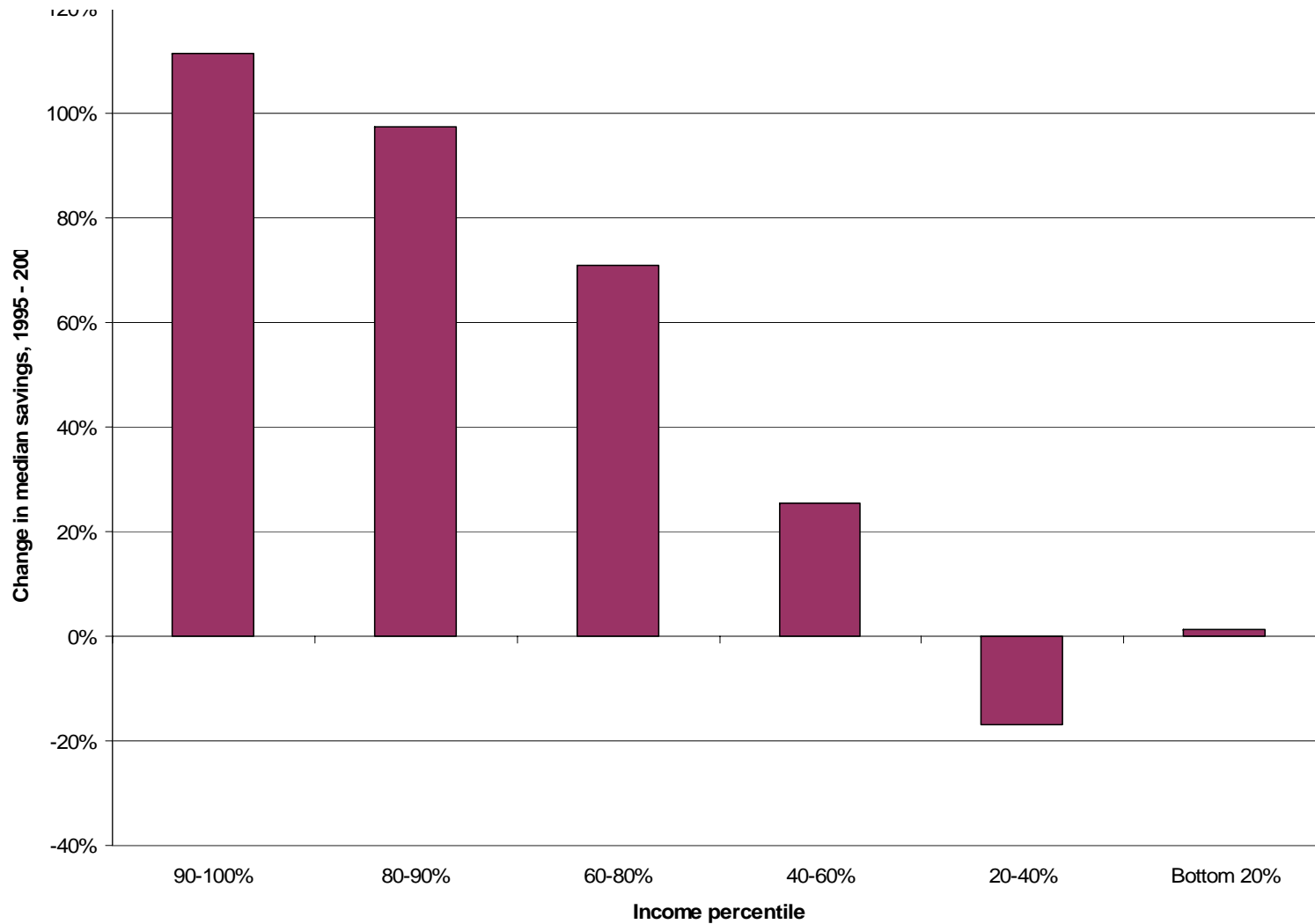
Customer Satisfaction Lower When Mortgage Not Serviced by Loan Originator

“Removing the customer from the decision making in such a big part of the mortgage process takes away some of their sense of empowerment. Customers want stability and consistency with their home loans, and lenders who can deliver those are rewarded with customers who are not only more satisfied and loyal, but also have twice as many additional products with the lender.”

J.D. Power and Associates

July 19, 2006

Lower income families have struggled to grow their savings



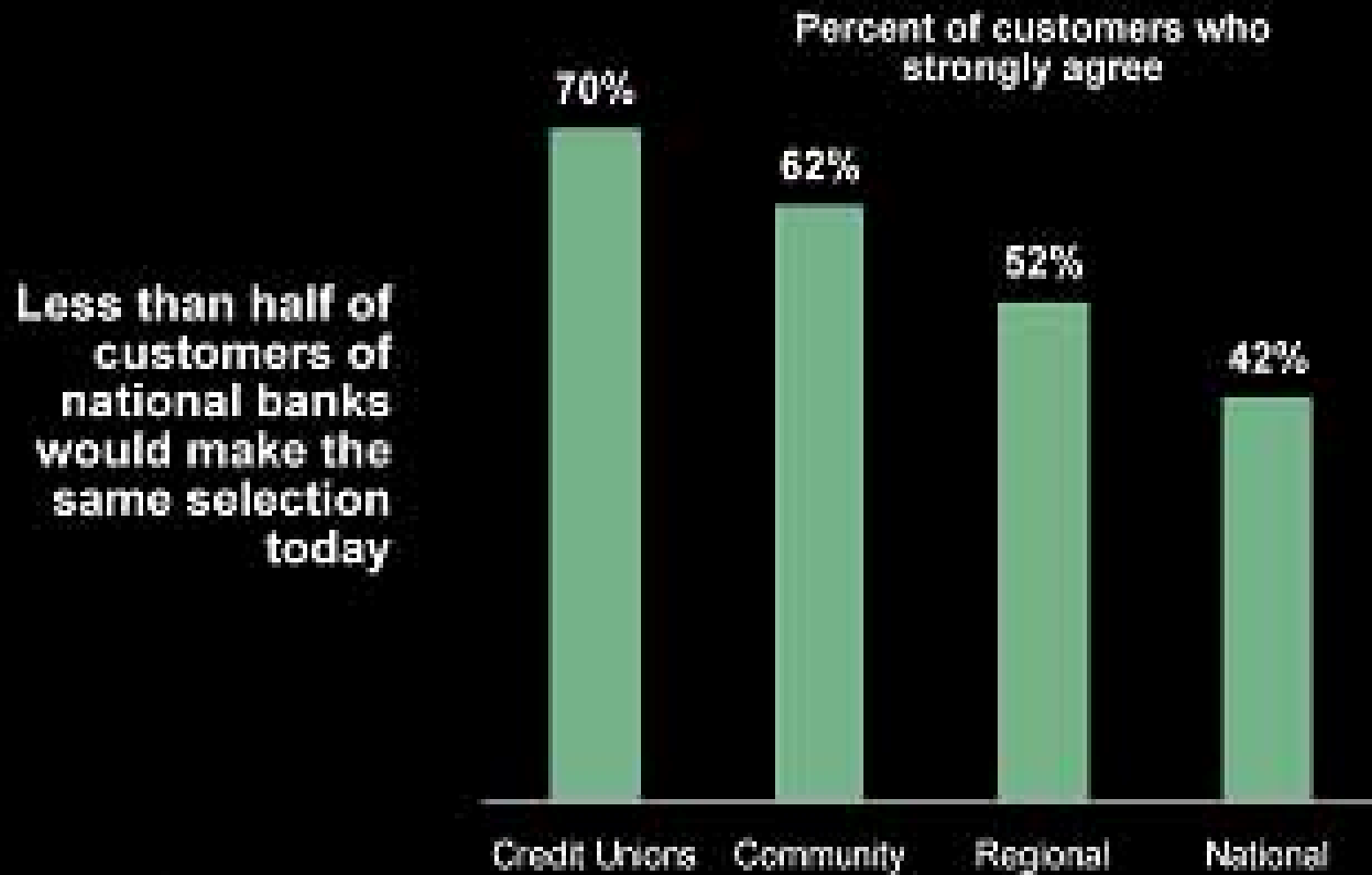
Is the credit union model
working?

How do we invest in our
future?

What is Customer Focus?

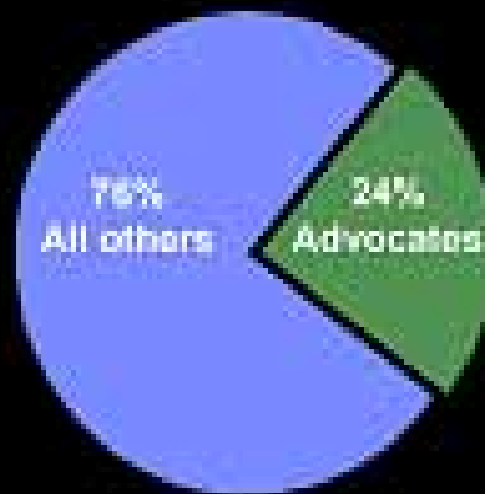
“The Next Competitive Advantage”
achieved through **anticipating and responding to**
rational and emotional customer needs
at key moments of truth,
creating sustainable loyalty and profitable growth

If I knew then, what I know now, would I have chosen the same bank?

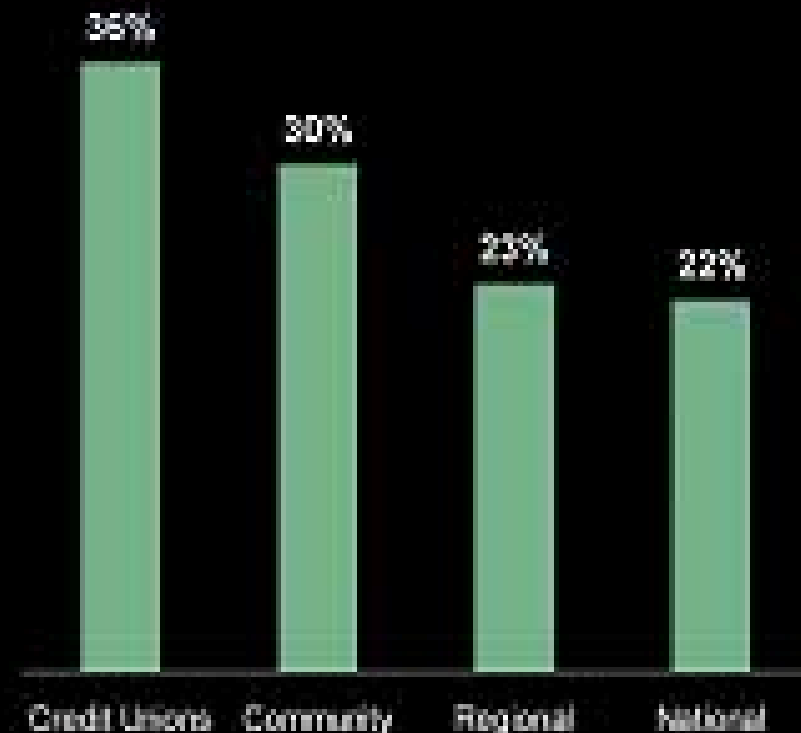


Despite investment--banks are disadvantaged in achieving organic growth

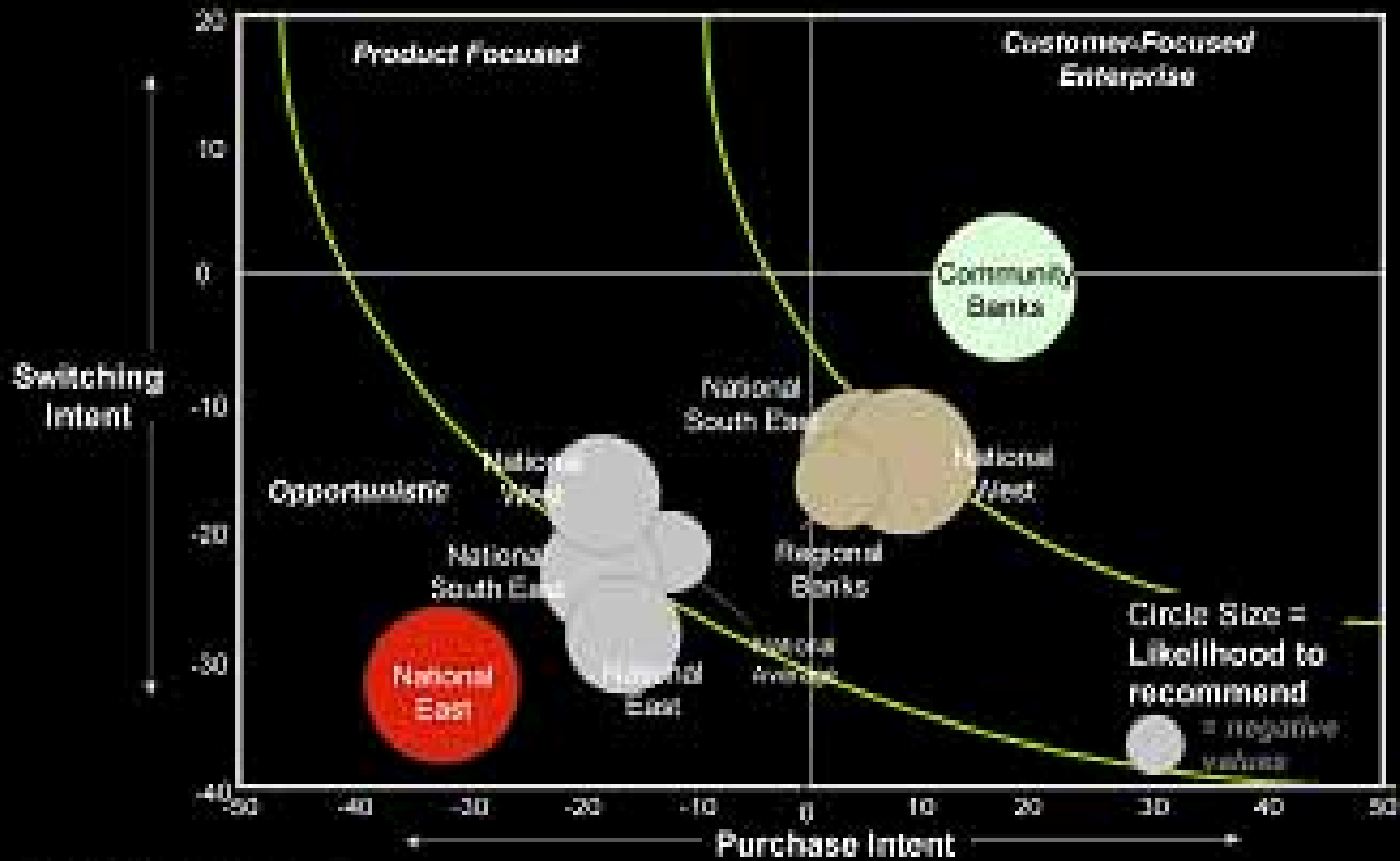
Percent of all U.S. bank customers



Percent of customer base who are advocates by bank segment



Customer Focused Enterprises among national and regional banks have yet to emerge



Source: 2006 IBM CPE Retail Banking Study

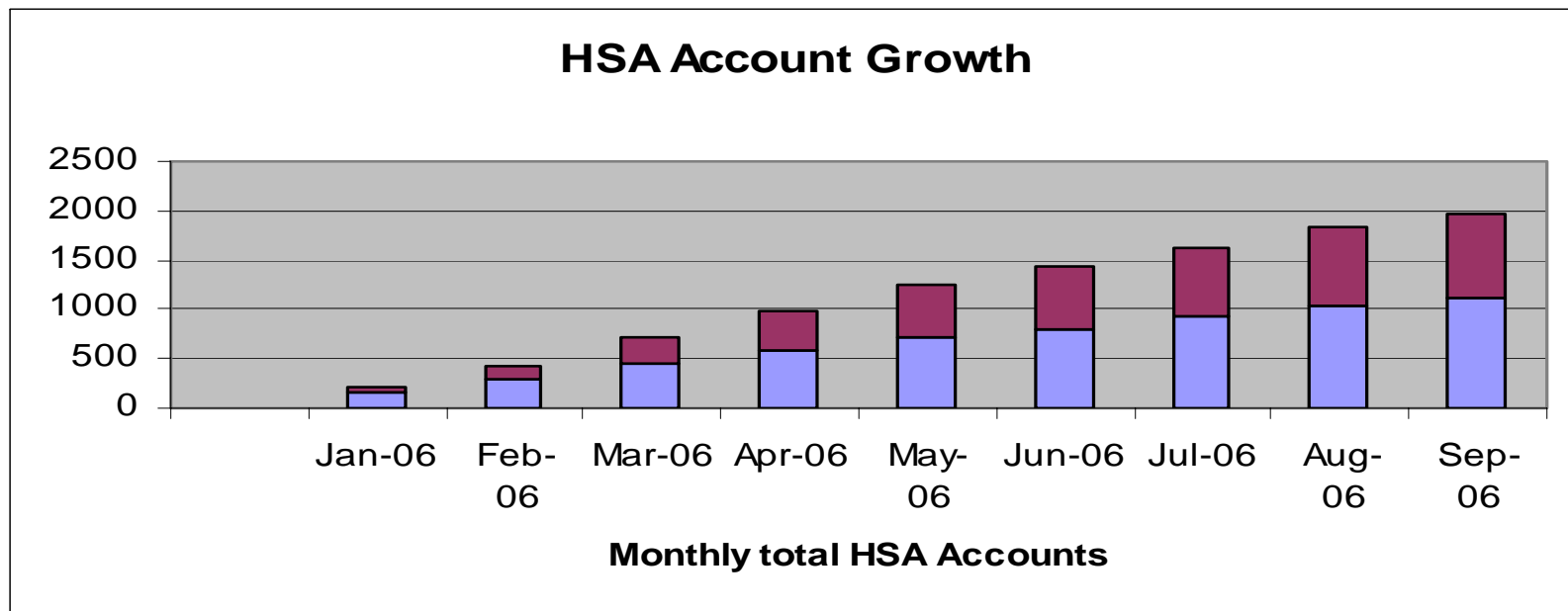
A mindset shift is required...

<i>FROM:</i>	<i>TO:</i>
Customer & employee satisfaction	Recommendation, Purchase and Switching as the driver of advocacy
Technology enables efficient interaction	People are the primary asset at the point of delivery
Rational drivers of customer behavior	Emotionally-anchored drivers of customer behavior
Brand promise creates value expectation	Operationalizing the brand delivers value
Focus on product push	Recognition of a multi-stage buying/selling lifecycle
Broad-based channel integration	Specialized channels aligned with end-to-end experience
Historical data integration and analysis	Targeting data to yield timely, relevant customer insight

How do we evolve?

- ❖ Innovation
 - ❖ Cooperation
 - ❖ Superior Value

New Members make up 75% of total HSA accounts



Current promotion tactics:

Through web site, newsletter and limited direct mail to existing members

Through Business Development and use of HSAInsider.com to non-members

Network vs. Network

The New Arena of Competition

“ . . . more and more leaders are facing a new reality: to succeed, they and their partners must address the market as one competitive unit . . . where once the crucial battle was between individual firms, today it is waged between networks of interconnected organizations.”

“. . . Leaders view the health and well-being of their network – and, indeed, of the individual partners that compose it – to be as important as their own company’s.”

“The rise of business ecosystems – they can be found across the economy, from biotechnology to banking – has had both positive and negative consequences.”

Source: “Network vs. Network: The New Arena of Competition”

by Loren Gary

Harvard Management Update

2005

Cooperation – CUSO Model “an evolution”



Manufactured Housing

CU Factory Built Lending Affordable Loans for Affordable Homes

CU Factory Built Lending, a subsidiary of SACU, wants to help you make the "American Dream" of home ownership a reality.

Our team of experienced lenders understands your factory built housing needs. We work directly with you to find the best financing options available.

We offer lending for manufactured single-section and multi-section homes and Modular homes. Our programs encompass all aspects of factory built housing lending including:

- home only loans
 - › new
 - › used
 - › refinance
- land & home packages loans
 - › new
 - › used
 - › refinance



Rates As Low As	
Home Only (New)	7.25%
Home Only (Used)	7.75%
Land & Home (New)*	6.75%
Land & Home (Used)*	7.25%

* Includes 1 origination point.

To find out how CU Factory Built Lending can help your make your dream of home ownership a reality, call us at 1-866-279-1899 today!

A credit union that enters into this market with the philosophy to lend to their members based upon character and commitment can offer the member the value proposition that only a member-owned cooperative can provide – translating directly to a **200-400 basis point advantage.**

Business Strategy: Getting Beyond Competition

“Effectiveness comes from recognizing interdependence and independence is something of a myth. Value creation is a fundamentally interdependent activity . . . creating value is a cooperative activity.”

“Much writing frames business as competitive, and that jumps over the precondition that people come together and act cooperatively to create a pie. It’s the decision we make to act together that creates wealth in the first place: it’s what permits the division of labor.”

Source: “Business Strategy: Getting Beyond Competition,
An Interview with Adam Brandenburger”

Harvard Management Update

The Cooperative Model

“A dollar is a miraculous thing. It is a man’s personal energy reduced to portable form and endowed with powers that the man himself does not possess. It can go where he cannot go; speak languages he cannot speak; lift burdens he cannot touch with his fingers; save lives with which he cannot directly deal – so that a man, busy all day downtown, can at the same time be working in a boy’s club, hospital, settlement, and children’s centers all over the world.”

Pastor Harry Emerson Fosdick

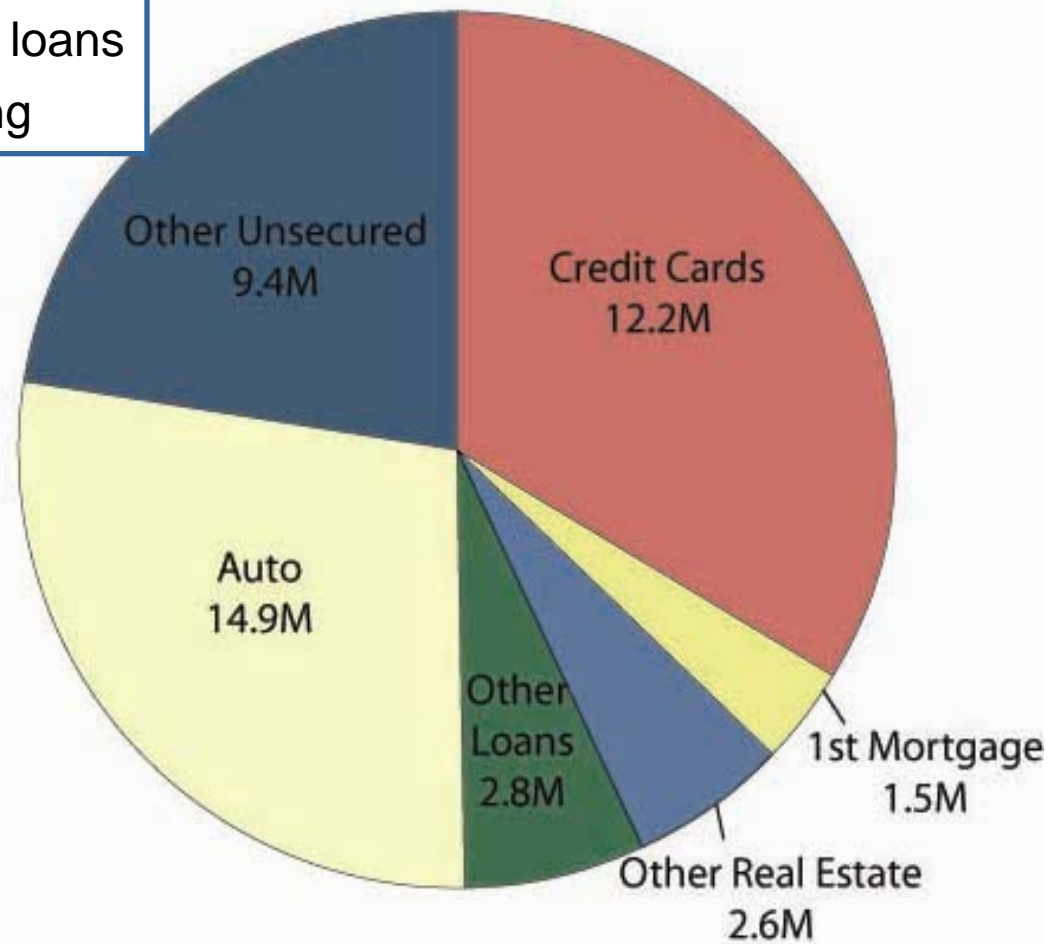
Riverside Church

New York City

43 Millions Points of Difference

Data as of June 30, 2006

42.5 million current loans
\$487.5B outstanding



Source:
Peer-to-Peer
Software